

**TESTIMONY OF DR. BRENT BLACKWELDER
PRESIDENT
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BEFORE THE

**FINANCIAL SERVICES INTERNATIONAL MONETARY POLICY
AND TRADE SUBCOMMITTEE**

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GREENING THE EXPORT-IMPORT BANK

Mr. Chairman, Ranking Member Sanders, thank you for the opportunity to testify before the International Monetary Policy and Trade Subcommittee today. Friends of the Earth is a national environmental advocacy organization. We are also part of Friends of the Earth International, the world's largest environmental federation with active members in 69 countries. We believe that U.S. economic policy should promote environmental stewardship and sustainable development. We appreciate the opportunity to discuss ways in which the Export-Import Bank (Ex-Im) can meet this goal.

There are four main areas where Ex-Im can improve its environmental practices in a manner that also creates more US jobs and increases our competitiveness in the global marketplace: 1) improved information disclosure, 2) better accountability, 3) implementation of the World Commission on Dams recommendations, and 4) increased lending for clean energy.

Friends of the Earth believes Ex-Im has taken several steps in the right direction when it comes to protecting the environment. The bank now has environmental standards that are among the world's best, and we commend Chairman Jim Harmon for supporting them. Not only have Ex-Im's environmental guidelines often helped prevent U.S. taxpayer support of environmentally destructive business ventures, they have also led other countries to upgrade the environmental standards of their own export credit agencies (ECAs). Under the Clinton Administration and now under President Bush, the

U.S. continues to push for binding standards and transparency for ECAs. Others are catching on. Australia's ECA has instituted standards that exceed Ex-Im's, and JEXIM, Japan's ECA, is in the process of developing stringent environmental guidelines.

The JEXIM example is important because Japan is our closest competitor when it comes to export finance. Rather than seeking to get a leg up by financing environmentally destructive ventures that Ex-Im's standards might prevent, JEXIM chose to follow the U.S. lead. We applaud Chairman Harmon for promoting this race toward the highest common environmental denominator in international forums like the G-8 and Organization for Economic Cooperation and Development (OECD), and hope the new administration will be equally committed to the issue.

Despite these successes, however, Friends of the Earth believes Ex-Im still has a long journey ahead of it. We were particularly disappointed that the bank chose to simply extend its current environmental guidelines, which were set to lapse this April, rather than improving upon them. The U.S. position publicly has been in favor of World Bank standards, but Exim is not practicing what it preaches. Adopting such standards reduces financial risk for U.S. taxpayers. Although the bank's guidelines exceed those of most ECAs, it needs to be more transparent and more accountable. Ex-Im requires environmental impact assessments of projects it finances, but does not provide adequate opportunity for public discourse around projects' environmental impacts, particularly for local communities in developing countries directly affected by large infrastructure projects. Ever since the Pelosi amendment of 1989 the U.S. has demanded that multilateral financial institutions provide 120 days for public comment on projects. This gives citizens in the U.S. and around the world ample time to analyze and suggest improvements to projects before the institutions' Boards of Directors make a final decision.

This public comment period applies not only to public institutions, but to the World Bank's private sector arms. Two years ago, Congress voted to institute a 60-day public comment period at the U.S.'s other ECA, the Overseas Private Investment Corporation (OPIC). Congress also required OPIC to disclose environmental impact assessments in the host countries where proposed projects are sited. This empowers the communities most affected by U.S. export finance to have a voice in decisions affecting them. Friends of the Earth believes Congress should follow this precedent and require Ex-Im to institute a public comment period and to release environmental assessments in host countries. This would go a long way toward making the bank more transparent and accountable to citizens at home and around the world.

Similarly, we believe Congress should require Ex-Im to create an independent office that evaluates its investments. This office, or "ombudsperson," would scrutinize Ex-Im's investments after the bank approves them, holding the agency accountable to its own environmental standards. Congressional leadership led to the creation of the World Bank's independent Inspection Panel in 1994, a mechanism that most recently proved its worth when it exposed violations of environmental and social policies in the China Western Poverty Reduction Project. The Bank has created a similar evaluation office for

its private sector arm, the International Finance Corporation (IFC). Recently, Ex-Im approved the controversial Chad-Cameroon oil pipeline project but to date has refused to reveal the contractual conditions placed upon the project. An ombudsperson position could help create the level of accountability that every government institution ought to have for the public.

As many on the subcommittee know, large hydroelectric dam projects often have environmental and social impacts. Perhaps the most devastating impact in developing countries is involuntary resettlement with hundreds of thousands of people displaced without adequate compensation. This practice increases poverty and public disdain for large dams. Recently, the private sector, World Bank and non-governmental organizations completed the findings of the World Commission on Dams. The report provides specific lending guideline suggestions for export credit agencies. We note that the private sector has approved the report findings. These recommendations promote sustainability not destructive hydro endeavors like the proposed Ilisu Dam in Turkey. We encourage Ex-Im to take a leadership role in adopting such standards.

Friends of the Earth's central concern with Ex-Im, however, is the agency's contribution to global climate change. The Bush administration's decision to back out of the Kyoto Protocol in part because of a need for developing country commitments to reduce greenhouse gas emissions underscores the policy incoherence of Ex-Im's energy investments. Through Ex-Im, the U.S. underwrites billions of dollars of greenhouse gas intensive development around the world including places like China and India—the same countries the administration castigates for not doing enough to stem climate change.

According to the World Resources Institute, Ex-Im led all ECAs in direct financing of energy-intensive projects and exports in developing countries between 1994 and 1999. The bank also surpassed everyone in its guarantees and insurance for energy-intensive projects and exports. And Ex-Im's own annual reports show that the problem isn't getting any better. In fiscal year 1999, about three percent of the agency's overall investment portfolio of \$8 billion underwrote fossil fuel development. In fiscal year 2000, the bank's support of fossil fuels skyrocketed to 28 percent of its overall portfolio, or nearly \$2 billion. That's why the Green Scissors Campaign, a coalition of environmental and fiscally conservative groups, is urging Congress to slash 28 percent from Ex-Im's appropriations. The U.S. should be demonstrating leadership in the effort to fight climate change, but Ex-Im is doing the exact opposite.

At the same time it spends billions of U.S. taxpayer dollars promoting polluting exports, Ex-Im does little to finance clean energy. Renewable energy and energy efficiency are the fastest growing energy markets globally.

When Ex-Im is urged to do more for renewable energy and energy efficiency, it claims it can't pick favorites among businesses. Unfortunately, its financial services—which are by nature tailored to meet the needs of large, already-established industries like coal and oil—amount to an implicit system of preferences. Ex-Im loans and guarantees are given to projects and exports on the basis of the revenues they'll generate to permit

repayment. This favors fossil fuel projects and shuts out renewable energy and energy efficiency investments, which are smaller and may require more time before they can repay the initial costs.

Friends of the Earth believes Ex-Im must move aggressively away from dirty fossil fuel investments and toward clean energy sources. Congress should seize the bank's reauthorization as an opportunity to do this. We believe that as a first step, the subcommittee should require Ex-Im to establish an advisory board comprising public and private sector interests, that would assist the bank in tailoring its financial services to better meet the needs of renewable energy and clean energy associations. This requirement should be coupled with a requirement that Ex-Im shift a portion of its energy portfolio away from fossil fuels and toward clean energy. These steps will increase U.S. competitiveness in the global marketplace and increase U.S. manufacturing jobs.

Again, we applaud the positive efforts of Ex-Im Chairman James Harmon and the ongoing Administration efforts to obtain common environmental standards. But we strongly believe the U.S. can and must do better.